

CHAPTER 2:

OVERVIEW OF COMMERCIAL AND CHARITABLE/NONPROFIT GAMBLING TRENDS

The data presented in this Chapter provide an overview of the trends in gambling activities regulated by the Commission. A comparison of the trends in commercial vs. charitable/nonprofit gambling is provided, as well as a more detailed analysis of Bingo, Punchboards/Pulltabs (PB/PT) and Raffles. A brief description of Amusement Games, Fundraising Events (FRE's) and Social Card Rooms is also provided.

Key terms used in this chapter include:

Gambling activities: Major activities analyzed in this report were Bingo, Punchboards/Pulltabs (PB/PT) and Raffles. Other C/NP gambling activities include amusement games, fund-raising events, and social card rooms

Stated purpose: The charitable or nonprofit purpose identified by the licensee in its application for a gambling activity license.

Top 20/10 licensees: The twenty largest licensees, by Gross Receipts, in Bingo and PB/PT for each year between 1993 and 2003. The ten largest licensees, by Gross Receipts, in Raffles for each year between 1993 and 2003. The Top 20 or 10 is for the year indicated, so the licensees on the list can change from year to year.

Pool: A grouping of licensees based on size. The dividing lines between the groups are different for each gambling activity, based on how the licensees cluster. There are four Pools in each activity: Small, Medium, Large and Extra-Large.

Key indicators:

Best Year: The year in which the specific indicator is at its highest level—for example, the year in which gross receipts or the number of licensees is highest. Many of the comparisons done are between the Best Year and 2003, to give a picture of how much change has occurred since the Best Year. In some cases, 2003 is the Best Year.

Looking at whether the Best Years cluster into certain time periods (or not) gives an additional picture of how the sector and the activities within it have been affected by Commission actions, growth of competition, etc.

Size: Total Gross Receipts: Total gross receipts indicate whether the C/NP sector, and the gambling activities within it, are growing or declining.

Size: Average Gross Receipts or Gross Receipts per Licensee. The gross receipts in an activity for any given year divided by the number of licensees in that year. This indicator measures the size of the games and whether they are growing or declining. Because the number of licensees in a Pool or stated

purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

Benefit to the C/NP Purpose: Total Net Income. Net income is gross receipts less prize payouts and expenses of the gambling operations. It is the total amount available to apply to the charitable or nonprofit purpose.

Total net income measures whether the amount of money being generated by gambling activities for C/NP purposes is increasing or decreasing.

Benefit to the C/NP Purpose: Average Net Income or Net Income per Licensee. This is the total net income for an activity in any given year divided by the number of licensees in that year. This indicator measures whether the amount of net income per licensee is increasing or decreasing. Because the number of licensees in a Pool or stated purpose changes from year to year, the average GR gives a better picture of growth or decline than only looking at the total.

Volume vs. Profit: Net Income as a percentage of Gross Receipts. This indicator divides net income by gross receipts to look at the relationship between growth or decline in volume (GR) and whether higher volume produces more net income. Here, the trend from year to year is the key measure.

Cost to Raise a Dollar of Net Income (CTR): Expenses of the gambling operation are divided by net income for each year. This indicator was chosen for two reasons. First, it gives a picture of how much money is being spent to raise \$1.00 of net income for the C/NP purpose. Second, it provides a comparison to other non-gambling charitable and nonprofit fundraising activities.

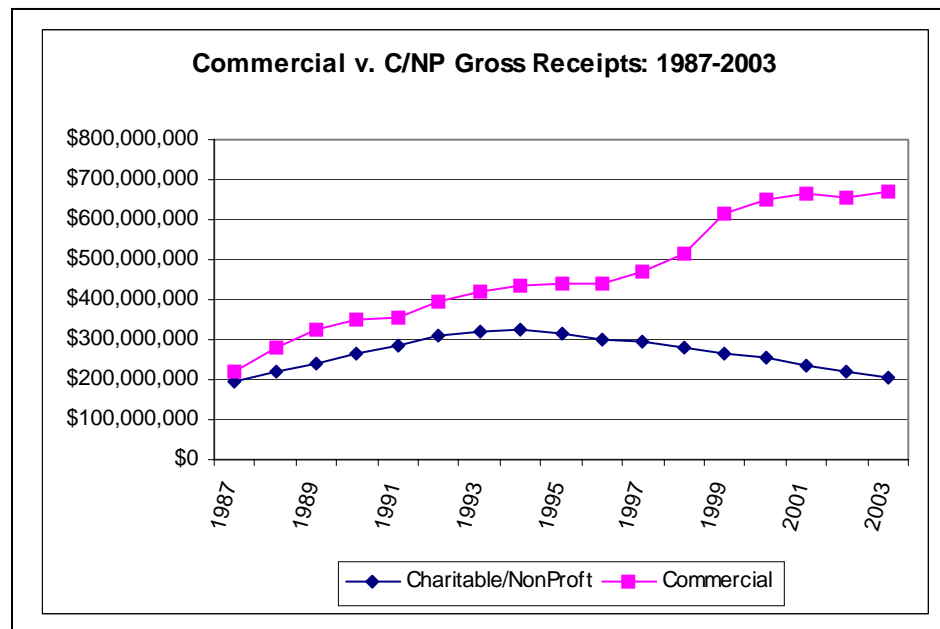
The Cost to Raise indicator was developed as a way to compare to other forms of nonprofit fundraising, where the cost to raise a dollar of private support should not exceed 35 cents (Better Business Bureau, Wise Giving Alliance, 2003).

Trends in CTR are useful because they show if expenses are rising faster than net income. A rapid rise in CTR for an individual licensee appears to be an indicator of potential financial problems in the gambling operation.

CHAPTER 2: COMMERCIAL AND CHARITABLE/NONPROFIT GAMBLING SECTORS: OVERVIEW AND COMPARISON

Both commercial and charitable/nonprofit gambling activities are authorized in Washington State. This section examines data related to how the gambling activities regulated by the Commission in total have evolved since 1987, and how the various activities within the C/NP sector have fared since 1987.

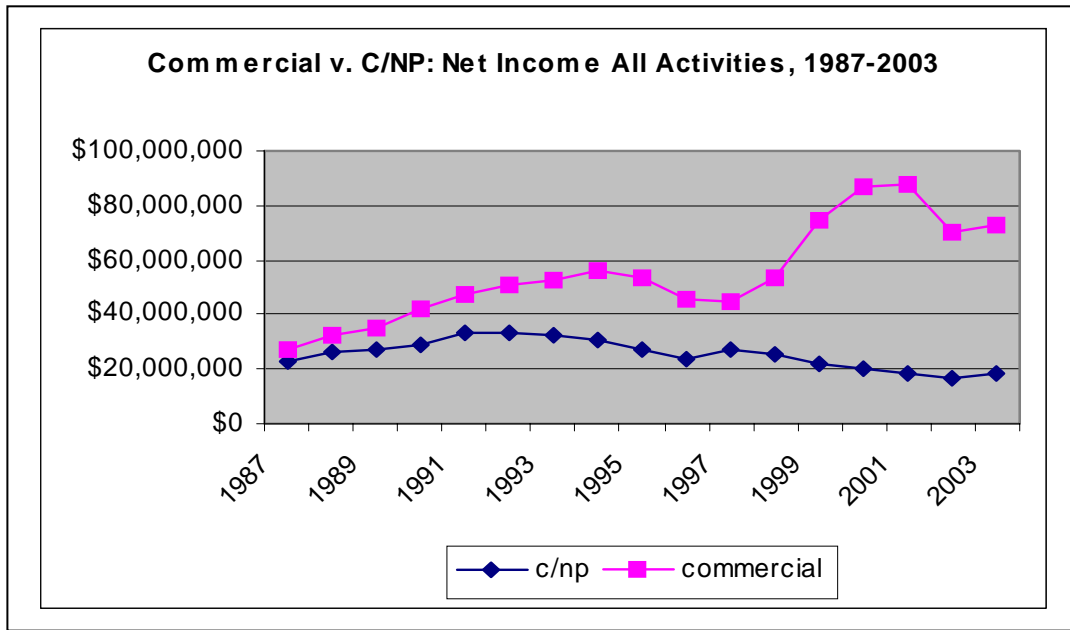
Overall. Gross Receipts. In 1987, total gross receipts for all gambling activities regulated by the Commission in Washington State (commercial and C/NP) totaled \$415.6 million. Of that total, commercial activities grossed \$221 million, or 53%, while C/NP activities grossed \$194.6 million, or 47%. Since that time, the gap between commercial and C/NP gross receipts has steadily increased. By 2003, commercial activities grossed nearly 77% of the total, while C/NP gross had dropped to 23%. Clearly, commercial gambling activities have expanded and C/NP activities have shrunk. Note that this table does not include tribal gambling, state lottery or horse-racing figures.



Licensees. The number of commercial licensees grew from 1987 until 1994-95, when they peaked at 2,641. Since then they have declined slowly, to a total of 2,035 in 2003. On the other hand, the number of C/NP licensees has declined steadily, from 1,991 in 1987 to 1,471 in 2003.

Net income (gross receipts less prizes and expenses) in the commercial sector had two peaks between 1987 and 2001. The first peak came in 1994, with \$56.5 million in net income. Commercial net income then declined for several years before building to the second peak in 2001, at \$87.8 million. This is likely attributable to the authorization of house-banked card rooms in late 1997.

Meanwhile, net income in the C/NP sector peaked in 1992 at \$33.3 million and then declined fairly steadily to \$17 million in 2002 before increasing to \$18.1 million in 2003. In 2003, the C/NP sector earned 20% of the total gambling net income in Washington State. This is slightly less than the C/NP share (23%) of total gross receipts.

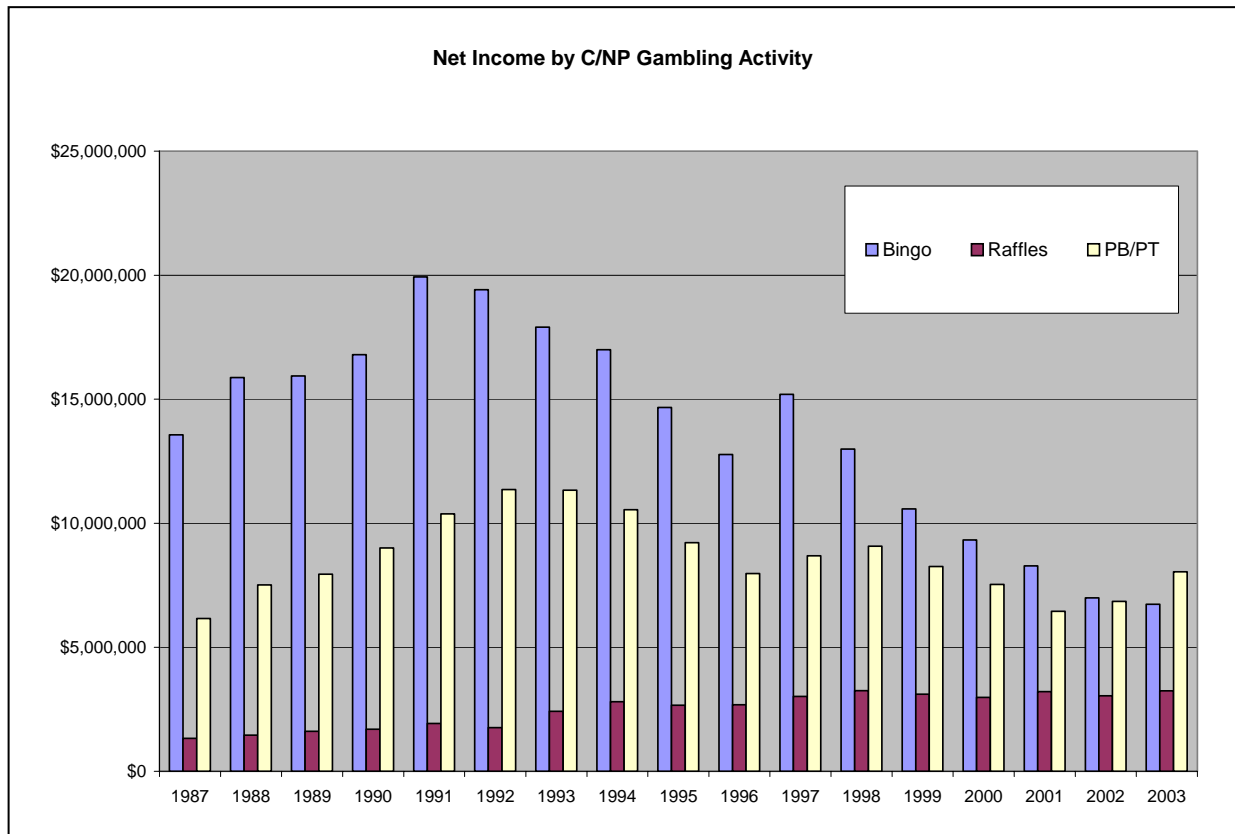


Cost to Raise a Dollar. Finally, the C/NP sector consistently kept its cost to raise a dollar of net income lower than that of the commercial sector. The gap began at about 20 cents in 1987 and actually narrowed in the early-to-mid 1990s. Starting in 1997 the CTR for the C/NP sector began to drop, while the commercial CTR rose. By 2003 the gap was more than \$2.00, with C/NP CTR at \$2.18 and commercial CTR at \$4.31. This undoubtedly reflected the use of volunteers and lower-cost venues by many of the C/NP licensees, which reduced costs.

GAMBLING ACTIVITIES WITHIN THE CHARITABLE/NONPROFIT SECTOR TRENDS IN BINGO, PUNCHBOARDS/PULLTABS, RAFFLES

Overall. The charitable/nonprofit gambling sector has steadily declined. Many organizations have stopped participating in C/NP gambling activities and the total number of licensees has dropped significantly since 1987. Even though gross receipts and net income have increased steadily in Raffles, there have been larger declines in Bingo and PB/PT. Thus, the entire sector's gross receipts are down 36% from its best year in 1994 compared to 2003 (\$321 million to \$206 million).

Total net income (gross receipts less prizes and expenses) in the sector topped out at \$32.5 million in 1992, dropping to \$18 million in 2003, a 45% decrease. This chart summarizes how the relative importance of Bingo declined, with PB/PT generating the most net income in 2003 and Raffles steadily increasing their share of net income.



This is substantially different from the conventional wisdom about charitable and nonprofit gambling, which assumes that Bingo is the major generator of income. It also clearly demonstrates that the efforts of the Commission to rework the net income/net return/adjusted cash flow regulations in Bingo have not resulted in increased net income for the stated purposes.

Note: Additional data detail for Bingo, PB/PT and Raffles is found in Chapter 3, Data, and in Appendix C.

Bingo. Bingo has declined significantly:

- Licensees down 40% since 1987 (from 571 to 431)
- Gross receipts down 44% since 1994, the best year (\$202 million to \$112 million)
- Net income down 66% since 1991, the best year (\$19.9 million to \$6.7 million)

Meanwhile, the cost to raise a dollar of net income increased 223% and the percentage of gross receipts that ended up as net income decreased from 11% to 8.7%.

The original reason for authorizing bingo, to allow churches to run their bingo games, has completely disappeared...the Religious stated purpose had no licensees by 2003.

The smallest licensees (Small Pool) did well over the past 10-15 years. The Medium licensees did moderately well. The Large licensees were hit the hardest by the pressures of growth and competition. The Extra-Large licensees managed to sustain their levels of gross receipts but had serious declines in net income, indicating that they generate a lot of volume but that the volume does not translate into net income for their stated purposes. Increasingly the Extra Large licensees have dominated Bingo, with the Top 20 licensees generating over 70% of total gross receipts in 2003.

The stated purpose that showed the most success with Bingo gross receipts was Athletic. The stated purposes with the most net income per licensee were Agricultural and Patriotic.

The declining net income (even with higher gross receipts in the Extra Large pool) and the increased cost of raising a dollar indicate that the business model for Bingo as a successful fundraising strategy may no longer work. This is worrisome, as a number of licensees draw a considerable portion of their total revenue from their bingo operations. The challenge for these organizations is to assess the future viability of their bingo operations and plan for new sources of income to replace bingo income.

Punchboards/pulltabs. Charitable/nonprofit PB/PT also declined but not as much as bingo. The number of licensees was down slightly—by 91 licensees, or 28% since the best year in 1994. However, by 2003, net income for PB/PT was the highest of all three activities. See chart above.

Gross receipts were also down, 25% since 1993, the best year. The drop was from \$115 million in 1993 to \$87 million in 2003. Similarly, net income dropped from \$11.4 million to \$8.0 million, or 29%, between 1992 to 2003.

For the Small and Medium licensees, PB/PT declined significantly, suggesting that a high volume of potential customers is needed to generate enough PB/PT activity. PB/PT may not be a particularly profitable fundraising strategy for smaller licensees.

While the Extra-Large licensees also play a big role in PB/PT they do not dominate the way they do in Bingo. The Top 20 PB/PT licensees generated 42% of total gross receipts in 2003. However, the data suggest that some of the very largest licensees

have been making a concerted effort to grow their PB/PT business, possibly as a way to offset the decline in Bingo.

It may be true that the high volume of people in a Bingo hall are needed to make PB/PT profitable, while the profits from PB/PT are needed to help the Bingo facility be financially feasible.

Licensees in the Civic, Educational and Athletic stated purposes have had the most success in growing their gross receipts and net income in PB/PT.

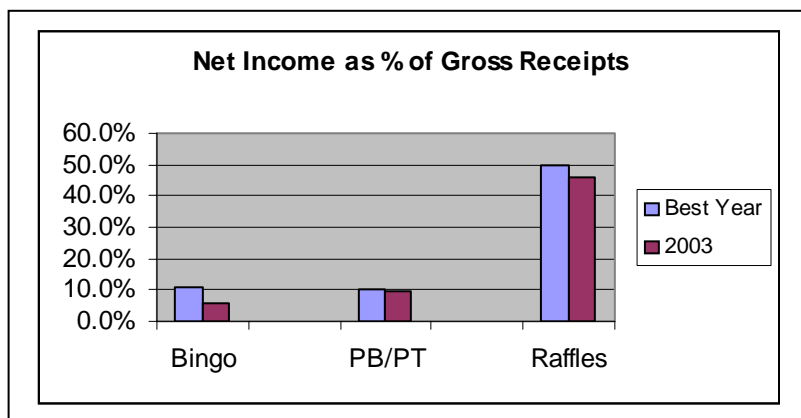
Expenses in PB/PT were puzzling. The CTR went up and down and then showed a significant decline in the 2002-2003 period. This may be a function of how expenses are allocated or reported. For those licensees operating both Bingo and PB/PT, the allocation logic for expenses between the two is not clear. The amount of expenses (beyond the cost of purchasing the games) seems high for the amount of staff time and space needed to operate PB/PT.

Raffles. Raffles are the most successful activity in charitable/nonprofit gambling. The number of licensees increased 44%, from 490 in 1987 to 705 in 2003. Total gross receipts also increased, from \$2.5 million in 1987 to nearly \$7.1 million in 2003.

But the big story is in net income. Because the cost to raise a dollar in Raffles was so much lower than in Bingo or PB/PT, net income in Raffles increased from \$1.3 million in 1987 to over \$3.2 million in 2003. Net income in Raffles was almost half as much as net income in Bingo in 2003. The chart above illustrates how Raffles have become a more and more important component of net income in C/NP gambling.

It is interesting to note that in Raffles, the smallest licensees had the greatest growth in gross receipts and net income. In some ways, the many small licensees participating in Raffles represent the initial reasons why charitable/nonprofit gambling was authorized—to allow organizations to utilize their members to raise money for their causes. Given that the smaller licensees generally did not see growth in their Bingo and PB/PT activities, Raffles may be the most effective C/NP gambling activity for small organizations.

Raffles are by far the most efficient at converting Gross Receipts into Net Income as the chart below shows.



Other C/NP gambling activities. While Bingo, PB/PT and Raffles are the largest activities within the C/NP sector, the Legislature has also authorized amusement games, fund-raising events (FREs) and social card rooms for C/NP organizations. All three of these activities have been small (see chart, next page).

The largest of the three was Fund Raising Events, or casino nights. The number of licensees decreased steadily from 1987 to 2003—there were only 24 FRE licensees in 2003 compared to 508 in 1987. FREs grossed almost \$1.8 million in 1987 but saw a dramatic decline starting in 1991 and continuing into 2003. This decline has been due to the expansion of Indian casino gambling and commercial card rooms. Gross receipts and net income both declined in concert with the drop in the number of licensees.

C/NP amusement games are usually part of a larger gambling operation such as a bingo hall. The number of amusement game licensees has increased from 26 in 1987 to 76 in 2003. However, gross receipts from amusement games peaked in 1990-91 and have declined since then. Net income has fluctuated between \$40,000 and \$100,000 since 1994.

There are no social card rooms currently being operated for fundraising purposes. The social card room licensees all operate their card rooms as a social pastime for their members.

